

March 19, 2009

WASHINGTON, DC—Today, March 19, 2009, Congressman Joe Sestak (PA-07) voted for H.R. 1586, the Bonus Recoupment Tax Bill, which passed the House of Representatives 328-93. This bill will impose a 90 percent tax on bonuses paid after December 31, 2008, by companies that have received over \$5 billion in Troubled Assets Relief Program (TARP) funds. The tax would also apply to bonuses paid by entities affiliated with these companies. Three-fourths of the TARP funds that have been spent went to companies that would be covered by this bill. This tax will not apply to any bonus that is returned to the company in the same taxable year that the bonus is paid. The bill would not affect taxpayers with adjusted gross income below \$250,000 or employees of companies that have received \$5 billion or less in TARP funds.

“The legislation I voted for today was not perfect,” said Congressman Sestak. “It was a rushed measure, but it was better than no measure at all. Once again, the need for accountability that the American people rightly demand was very clear and, as I have said, should have been the hallmark of this process from the start.”

“However, we must make certain that as this comes to conference with the Senate that we do not unduly penalize any good, hardworking Americans,” the Congressman continued. “America is a nation of laws, and I would not under normal circumstances be comfortable with the idea of abrogating contracts or retroactively instituting what might be perceived as punitive excise taxes. The Equal Protection Clause of the 14th Amendment is a critical component of ensuring that ‘All men are created equal.’ But these are not normal circumstances. There are a number of facts in this AIG case which I believe are compelling evidence that they had some expectation of large losses and intentionally were trying to shield their compensation from those losses. In November 2007, when the AIG Retention Bonus was signed by the previous AIG management, there was recognition that large losses were very likely coming in AIG’s portfolio, and specific accounting measures were taken by AIG to protect these bonuses. These bonuses are an outrage and an insult to the American taxpayer, and that’s why I voted today for this measure to recoup the American people’s money.”

In January, Congressman Sestak voted for, and the House passed, legislation that would have prohibited, among other types of compensation, “golden parachutes” or bonuses to the top 25 most highly compensated employees at any company receiving TARP funds while the TARP assistance is outstanding, and provide the Treasury with authority to “claw back” these restriction to any company that had previously received TARP funds. However, the Senate

failed to pass this measure.

Last September, the federal government loaned the American Insurance Group (AIG) \$85 billion, as the company could no longer access credit to fund its day-to-day operations. In addition, an economic “bailout” package enacted in October provided a total of \$700 billion in federal aid to financial institutions to remove “toxic” debts and infuse capital into the credit market. AIG has now received more than \$180 billion in taxpayer money and is now nearly 80% owned by the government. As part of a restructuring plan announced by the Treasury Department earlier this month, AIG is set to receive an additional \$30 billion in federal rescue aid.

H.R. 1586 taxes bonuses given to individuals at a rate of 90% if their employer received more than \$5 billion in federal assistance under the Troubled Asset Relief Program (TARP). It applies to individuals whose total family adjusted gross income exceeds \$250,000 per year, and affects bonuses received after Dec. 31, 2008.

Employees or former employees of covered TARP recipients would face a tax on their income minus the TARP bonus as determined by existing tax code, plus a 90% tax on the bonus. The term “TARP bonus” is defined by the bill to include any retention payment, incentive payment, or other bonus that is in addition to the amount paid to the individual at a regular rate, but it does not include commissions, welfare or fringe benefits, or expense reimbursements.

This bill will hold companies – including AIG and other companies receiving billions in taxpayer dollars – accountable for the bonuses that were paid to their executives. After receiving more than \$170 billion in taxpayer funds, AIG paid \$165 million in retention payments to executives – most of whom have mismanaged their company into near bankruptcy. The top recipient received more than \$6.4 million and more than 73 of these executives were paid over \$1 million in retention bonuses. After receiving their retention bonuses, at least eleven recipients left the company. No taxpayer funds should be used to pay bonuses or other unjustified compensation to AIG executives whose irresponsible risk-taking brought our financial system to the brink of collapse. The public and the Congress are rightly outraged by this behavior. The AIG situation underscores the urgency and the need for overall financial regulatory reform so we don't find ourselves in this position again, and Congress and the Administration are working together to that end.

Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for

31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the U.S. Congress.

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